

# NEW GROWTH



# FINANCIAL STRENGTH

HAYES-DANA LIMITED  
ANNUAL REPORT

1976



## OUR COVER THEME

We work hard and continue to keep on target towards our long-term objectives in spite of problems like inflation, high interest rates, restrictive monetary policies and potential energy shortages.

To ensure that we are well positioned to surmount these problems we have directed our NEW GROWTH into less cyclical markets like agricultural and heavy truck parts and aftermarket service. And because we are convinced that this growth must be supported by FINANCIAL STRENGTH we are continuing to stress asset management, earnings consistency and perhaps most important of all adequate liquidity.

Our front cover highlights one of the key elements in tying together the information required to make it all happen — a simple-to-understand but effective management information system.

The photos depict four phases of information management at Hayes-Dana. At the Drive Train Division, Gord Cote, top left, is communicating with a major original equipment customer. By tying in his computer terminal to the customer's, he receives weekly release schedules and transmits records of daily shipments. Mary Nugent operates a computer at the Toronto branch of Byers Truck and Trailer. She uses it to enter customers' parts orders, minimize back orders and adjust stock location records. In the photo at the lower left, Jim Chess, Controller — Drive Train Division, on the left and Don McKay, Plant Manager — Drive Train Division, on the right, keep current on all facets of their Division's operation with the aid of continually posted control charts. George Hough, Corporate Controller is getting an up-to-date report from Jim and Don to assemble into corporate totals for transmission via closed circuit TV to senior management people such as Hubert Langford, Vice President — Drive Train Division. By changing channels he can instantly obtain vital statistics on all phases of the corporation.

## AN INTRODUCTION TO HAYES-DANA

Hayes-Dana Limited is one of Canada's largest independent parts suppliers to the automotive and agricultural industries. We produce a variety of products including: universal joints, complete drive shaft assemblies, gaskets, frames, remanufactured clutch, water-pump, and electrical components and offer both parts service and labour to major truck fleets across Canada through our growing network of truck centres. The company was granted its Letter Patent on July 10, 1922, as the Hayes Wheel Company of Canada Limited, although we can trace our roots back as far as 1865. Following subsequent organizational changes the name of the company was changed to Hayes-Dana Limited in 1966 to publicly recognize the participation of the Dana Corporation as majority shareholder.

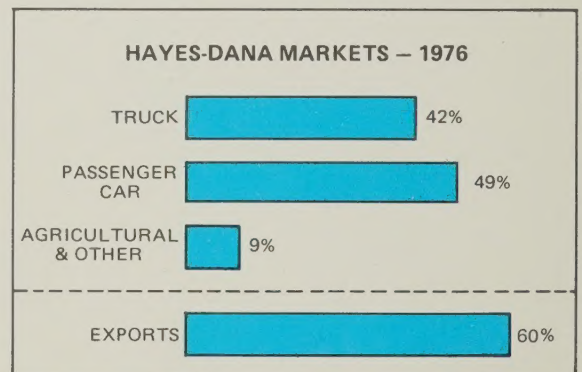
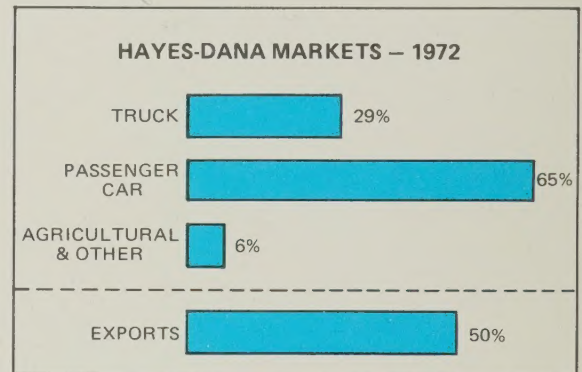
## THE NORTH AMERICAN CONCEPT

Hayes-Dana operates under a "North American Concept" within the "Dana Group". Based on geography, language and economic factors, we feel that Canada falls naturally into a North American common market. This concept allows Hayes-Dana to compete not only in Canada, but in the entire North American market, and not only in competition with other Dana plants but with outside competition as well. This strategy takes us out of the branch plant category and allows us to function harmoniously with the Dana Corporation to maximize profits by optimum utilization of the combined assets, regardless of geographic location.

## OUR MARKETS

In serving the automotive and agricultural industries, the Company operates on several levels:

- (1) as a supplier of parts to the original equipment manufacturers
- (2) as a pre-delivery servicer of vehicles, acting between the original equipment manufacturer and their dealer
- (3) as a supplier of parts to the aftermarket for the repair and replacement of worn parts on trucks and cars
- (4) as an operator of heavy truck service centres providing fleet and heavy equipment owners with installation service and equipment modifications



Our strategy has been to move to greater penetration of truck and agricultural markets to offset the cyclical nature of passenger car sales. The success of this programme can be seen in these charts comparing 1972 to 1976.



# FINANCIAL RESULTS IN BRIEF

YEAR ENDED AUGUST 31

	1976	1975	1974
RECEIVED FROM CUSTOMERS FOR PRODUCTS AND SERVICES .....	<b>\$128,944,000</b>	\$90,187,000	\$90,051,000
PROFIT BEFORE INCOME TAXES AMOUNTED TO .....	<b>9,961,000*</b>	5,273,000	4,312,000
OUR BEFORE TAX MARGIN WAS .....	<b>7.7%*</b>	5.8%	4.8%
WE INCURRED INCOME TAXES OF .....	<b>4,170,000*</b>	2,228,000	1,904,000
OUR NET INCOME AFTER TAX AMOUNTED TO .....	<b>5,791,000*</b>	3,045,000	2,408,000
CASH DIVIDENDS PAID TO OUR SHAREHOLDERS AMOUNTED TO .....	<b>1,446,000</b>	1,436,000	1,461,000
NET INCOME PER COMMON SHARE .....	<b>\$ .96</b>	\$ .51	\$ .40
HAYES-DANA DIVIDEND PAID PER COMMON SHARE .....	<b>\$ .24</b>	\$ .24	\$ .24
NUMBER OF SHAREHOLDERS .....	<b>2,730</b>	2,700	2,550
NUMBER OF PEOPLE .....	<b>2,250</b>	2,080	2,530

\* AFTER EXTRAORDINARY CHARGE





# REPORT TO OUR SHAREHOLDERS

Fiscal 1976 provided evidence that Hayes-Dana has the financial resources and organizational strength to grow in a difficult business environment. Sales in Canada and the United States grew 43% to reach \$128.9 million, the highest level in the Company's history. Consolidated earnings were also a record in 1976 increasing 90% to \$ .96 per share, primarily as a result of higher export sales and good control of costs. Our Drive Train, Frame and Forge Divisions operated at high levels of capacity during the year with some selective overtime required. The Aftermarket continued to improve its penetration of the Canadian service parts and labour markets with shipments increasing more than 40%.

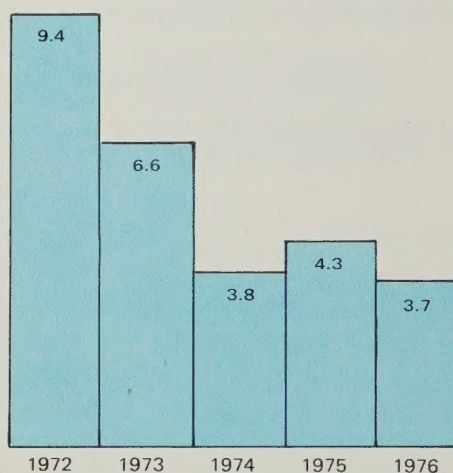
Significant progress also was achieved in areas which, because they lay the groundwork for the future, may be even more important than the sales and earnings of a single year. Among these are:

1. Completion of the acquisition of Byers Truck & Trailer Equipment Ltd. followed by the opening of a new truck centre in Sudbury in May, the forerunner of a major expansion program.
2. Agreement to purchase Western Wheel & Parts Ltd., subject to approval by the Foreign Investment Review Agency.
3. Establishment of a new centralized distribution warehouse system in Beamsville, Ontario. The 60,000 sq. ft. building will house the Aftermarket group, providing for effective person to person communication; improved order fill and tighter inventory control.
4. Reorganization of the Aftermarket group into functional marketing divisions.
5. Commencement of production of agricultural joints at St. Thomas to insure our customers adequate capacity and an alternate source.
6. A further reduction in the Company's already low debt, accompanied by the firming up of credit lines to finance the active growth plans of the next few years.

## CAPITAL PROGRAM —

During the past year we invested \$3,730,000 in our continuing programme to improve the operating efficiency of our plants and equipment. The major expenditures were for Agricultural capacity, heavy duty universal joint machining and additional hammers and support equipment for the Forge Division.

**CAPITAL EXPENDITURES**  
IN MILLIONS OF DOLLARS



In the current year we will spend \$3,500,000 to further balance our capacity, to improve productivity and to support the cost saving programmes each division has undertaken. The Frame Division has several active proposals for new products to replace the passenger car frame business. A significant increase in FY-1977 authorized capital spending will be needed as these new products proceed from the prototype stage of development to full production. Our strong cash flow will enable us to finance these commitments from internally generated funds.

#### NEW DIRECTOR —

Last December we welcomed to our Board, Mr. J. J. Wettlaufer, Dean of the School of Business, The University of Western Ontario, increasing from ten to eleven the number of members of the Board. With his academic background and his close contact with the business world, Mr. Wettlaufer adds a new insight to the Board.

#### THE THEME FOR 1977 —

As has been our practice in recent years we build our annual report around our planned objectives and then expand on the theme in following quarterly reports. This year we will deal with our strategy for Financial Strength — what is financial strength, how is it measured and why is it important?

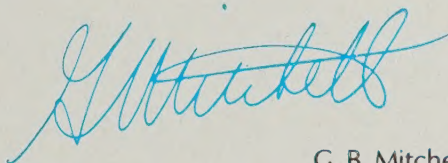
Financial Strength is the foundation of our plans for growth — particularly our liquidity, which simply stated, is our ability to make ends meet — to pay our bills when they come due. Today with credit, capital and other sources of funds bringing a premium, our ability to maintain a ready supply of cash depends upon continued tight internal control of accounts receivable and inventories — a strong balance sheet to assure continuous access to the money required to support new growth.

Beyond expansion of facilities and increased volume, our concern with growth is directed towards developing completely new product lines and diversifying through acquisition.

#### 1977 OUTLOOK —

Our major markets — truck, passenger car, agricultural equipment and aftermarket — are continuing to gather strength as we move into the new model year. Schedules are firming up from our customers to indicate another record year could be in store for Hayes-Dana. Export sales are expected to remain at high levels which will compliment the improving but still comparatively weak recovery in Canada. Stepped up cost saving programs and continued careful control of expenses will be key elements in our effort to make 1977 the fourth consecutive year of earnings improvement.

Respectfully submitted,  
On behalf of the Board of Directors —



G. B. Mitchell  
Chairman of the Board



George D. Doresco  
President

October 8th, 1976



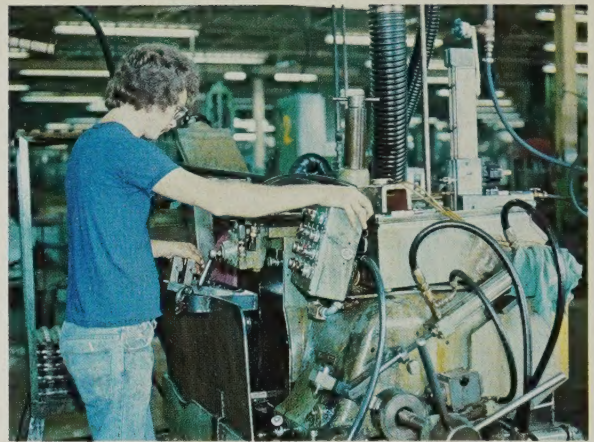


## DRIVE TRAIN DIVISION

Another highly successful year was turned in by the Drive Train Division, making this the sixth consecutive year that sales have exceeded the prior year. In fact, in that six year period we phased completely out of the highly cyclical low profit passenger car business in this Division and still attained a compound growth rate of 15% per year.

Looking at the year, light truck shipments were at capacity levels with the Light and Medium Section producing over one million drive shafts, heavy duty was slow during the first half of the year but releases have increased month-to-month recently. With light truck shipments continuing at capacity levels and heavy duty moving up towards the 350,000 joint capacity of that section, we are looking forward to another record year for this our senior division.

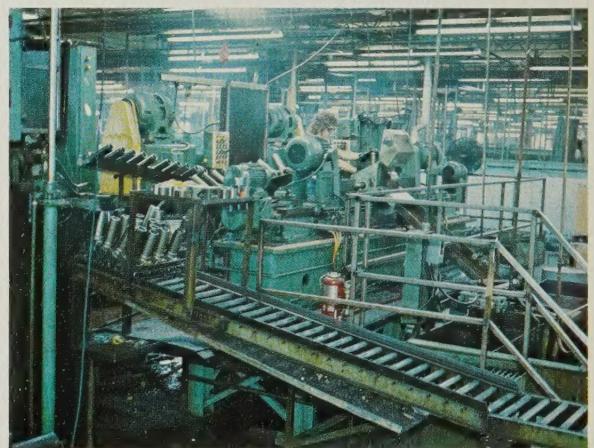
We continued our long range programme of adding to and modernizing the plant and facilities in 1976. Some of the highlights are illustrated in the following photographs:



Jim McClellan operates a centreless grinder on the journal cross. This area is the heart of the journal line at Thorold and is continually up-dated to assure our ability to supply increasing quantities of quality drive train parts.



A major advantage we now offer our customers is dual-sourcing for heavy-duty shafts, through the addition of a second line located at our St. Thomas plant. There, Gretchen Blyzniuk is broaching a heavy-duty sleeve.



In this view we see a gun reamer being operated by Ron Hamon. This new equipment eliminated a boring operation, giving us improved productivity.





New locker room and shower facilities are a part of our on-going effort to improve the working conditions of our employees.



Another example of improved working conditions is this recent installation of air handling equipment and roof exhaust fans on the heavy-duty journal line.

## AGRICULTURAL DIVISION

In just a few short years Hayes-Dana has become one of the leading suppliers of drive shafts to the North American agricultural implement market. The drive shaft transmits power from the tractor to the implement and this, of course, is a natural extension of the experience and expertise we have in the truck market. Our rapid NEW GROWTH

is the result of designing and engineering a constant stream of new and improved products to meet the industries' requirements for less noise, less vibration, ease of maintenance and most of all, less field downtime.

Hayes-Dana products are now supplied to the major agricultural manufacturers as well as small and medium short line producers. The confidence that our customers have in our product line — our engineering knowledge of their problems, and our proven manufacturing skills — assure our continued penetration into this expanding market.

As the design of implements demands new sophistication, we will be actively looking at hydraulics, electronics and other forms of automation necessary to feed the world at reasonable prices.

We are continuing our search for acquisitions involving fully engineered products that have the potential to broaden our agricultural product line and meet our growth objectives.



Part of the new growth in agricultural capacity is the addition of a gear box line at St. Thomas. In this view, (from left to right) Clayt Silcox, Les Anderson and Bill Singer share duties in the assembly area.



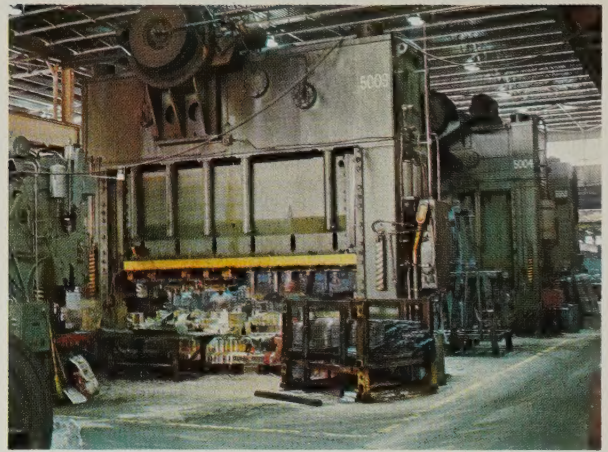


## FRAME DIVISION

In March of this year, we announced the long anticipated move by General Motors Corporation to integrate that portion of their 1978 intermediate size passenger car frames presently manufactured by Hayes-Dana, into one of GM's manufacturing facilities.

As mentioned, this move was anticipated and we began to move ourselves out of the passenger car frame business some time ago by beginning to build truck frame cross members. The experience and expertise we have gained through this strategic manoeuvre into the less cyclical truck frame business will provide the NEW GROWTH required to fully utilize our assets.

We will spend the money required in 1977 and 1978 to convert the Frame Plant to a high quality truck frame facility. And, to make certain that the tooling and equipment unique to the passenger car "A" frame business are not a drag on future earnings, we have taken a special charge against 1976 earnings to write these assets down to net realizable value.



Some of these presses have already been phased out of passenger frame production into production of stamped metal parts for trucks.

## FORGE DIVISION

Our Forge Division is a captive shop supplying top quality closed die forgings to our Drive Train Plants in Thorold and St. Thomas and to the Dana Corporation's Axle and Universal Joint Divisions in the United States.

We have product responsibility within the Dana Group to maintain a continuing programme of NEW GROWTH through capacity additions and plant modernization. A joint Hayes-Dana/Dana Corporation forging committee meets periodically to project out five years and more into the future what our required capacity additions need to be to meet the product growth forecast. Since 1970 we have more than doubled capacity to over 30,000 tons annually and the requirement will



double again by 1980. We are aided in our planning by the fact that Dana Corporation buys 50% of its forging requirements from outside sources; with the remaining 50% supplied internally. This method of inside and outside sourcing is common with most volume users and tends to give the inside supplier the stability and capacity utilization required to operate profitably in this capital intensive business.



Tony Tomazin adjusts stops on a new bar stock shear which gives us an additional 25% shearing capacity.



A new weigh scale speeds weight-count checking of shipments from steel suppliers and provides more accurate raw material inventory records.



To accommodate our increased capacity this 11,200 square foot storage area was erected in September.



Ernie Liboiron forges sleeve yokes on a recently installed 6,000 pound Seco drop hammer.



Shipping efficiency has been improved with the roofing — over of our shipping dock and the installation of a electrically heated concrete pad to provide positive traction in winter weather.





## AFTERMARKET DIVISION

Of major importance to Hayes-Dana is the rapidly expanding Canadian replacement parts and service market. Last year this relatively non-cyclical market represented over \$10 billion, broken down as follows:

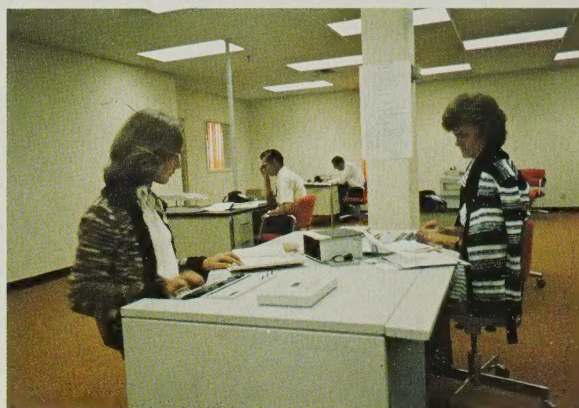
1975	
AUTOMOTIVE SERVICE MARKET	
	\$ Billion
Service Parts	4.1
Service Labour	6.3
	<hr/> 10.4

There are two market segments, one that sells parts and the second that provides the service labour involved in repair work and installation of the parts. Our main thrust has been and still is the sale of parts which we and Dana Corporation produce under such well known brand names as SPICER – VICTOR – PERFECT CIRCLE – NASCO – CHELSEA.

Sale of parts is speeded from the factory to the distributor and jobber through the modern facilities of our new central warehouse in Beamsville, Ontario; and a network of six regional warehouses. We use the latest in on-line computer inventory control systems to insure quick response to customer orders and to optimize the rapid turn-over of inventory.



During August, the Hayes-Dana Parts Company head office and central warehouse moved into this new 53,000 sq. ft. building from facilities in Thorold, St. Catharines and St. Thomas, Ontario.



Olivia Hempel and Beverly Mason are entering customer orders on a data recorder at Beamsville. A computer is used to edit customers and part numbers, produce packing slips and prepare invoices.



The new central warehouse provides faster order picking on orders for branches and greatly improves the company's order-fill performance. Larry Scriver checks Spicer inventory shortly after moving into the new warehouse.



In addition to selling parts, our growing network of truck and fleet service centres give us the opportunity to share in the profitable heavy truck service labour and installation market. Following our acquisition of Byers Truck & Trailer Equipment Ltd. last year, we have begun a rapid expansion of their truck and fleet service centres. On May 1, 1976, we opened their newest facility in Sudbury, Ontario, and plans are proceeding past the site development stage on a new centre for Hamilton, Ontario, to be opened next year.

On January 22, 1976 we announced a further expansion into this market through an agreement providing for the purchase of Western Wheel & Parts Ltd. of Vancouver, conditional upon the awaited approval of the Foreign Investment Review Agency. Western Wheel serves the major truck fleet and off-highway operators in Western Canada through six locations in Vancouver, Duncan and Kamloops, British Columbia, and in Calgary and Edmonton, Alberta. Plans have been formalized to expand Western Wheel as soon as FIRA approves its acquisition.



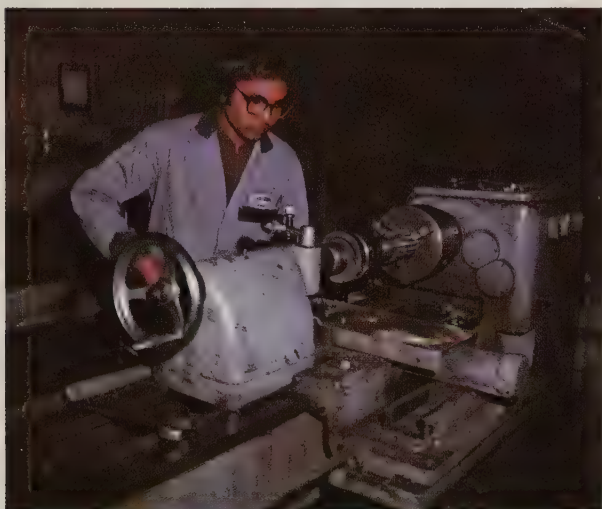
Typical of Byers Truck & Trailer branches in Southern Ontario is this one located adjacent to major fleet terminals in Toronto.



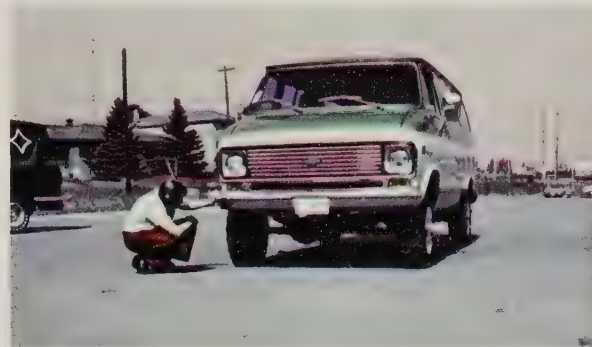
In briefest possible terms Byers could be described as customizers and installers of accessory equipment and replacement parts on heavy duty vehicles. Here a customer is checking on the installation of a fifth wheel on a large diesel tractor.



Mezzanine stocking makes maximum use of space at Traction Specialty in Toronto. This operation provides parts and service for drive shafts, power-take-offs and hydraulics for trucks, off-the-road equipment and industrial applications.



Drive shaft repairs are provided by more than 150 independent Spicer Drive-line Specialists and several company owned service centres across Canada. At Hayes-Dana Parts Co. Ltd. in Toronto we see Saleem Khan cutting damaged tubing from an 1810 splined stub shaft.



The big difference in this 12 passenger van is not immediately apparent. It is an experimental "part-time" four-wheel drive unit utilizing a Dana axle with free wheeling hubs. Bob Boneham of Kerr Industries, Oshawa who carried out the modification, takes a look underneath following a field test.



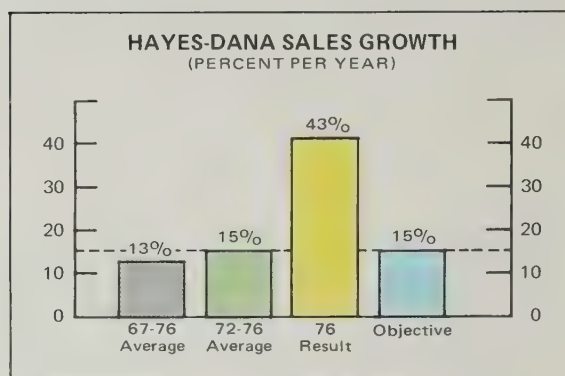
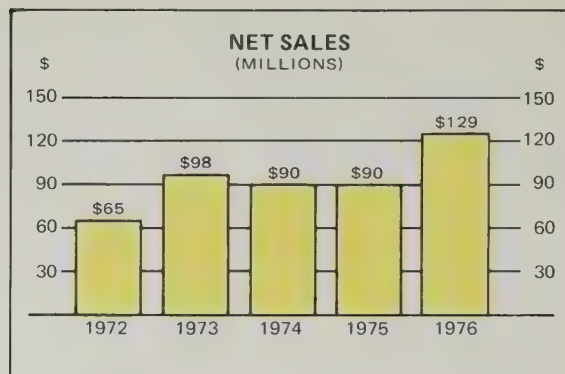


## FINANCIAL STRATEGY

We believe that only those companies making adequate profits on competitively priced products and services today, can afford the additional investment required to make the business grow and to be even more competitive tomorrow. Planning at all levels of the organization and an absolute commitment to getting things done through people involvement are key elements in our efforts to earn money for our shareholders and to protect and increase the value of their investment.

Back in 1970 we established corporate objectives that set goals of 10 percent average annual sales growth and 12 percent return on shareholders' equity. Last year in recognition of the fact that a higher level of profitability is required to counter the eroding effect of inflation we raised our goals for sales growth and return on shareholders' equity to 15% and 18% respectively.

On the following pages we have made an effort to present our financial information in as interesting and readable a form as possible to enable you to better understand your company.



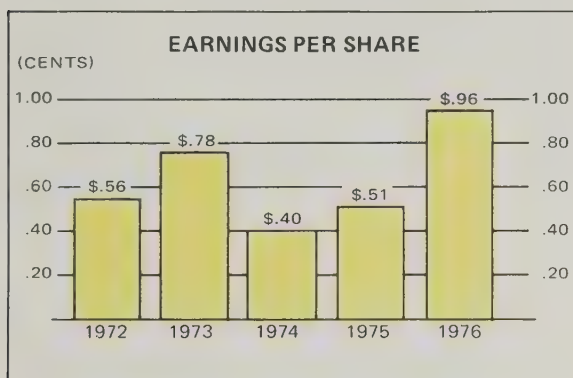
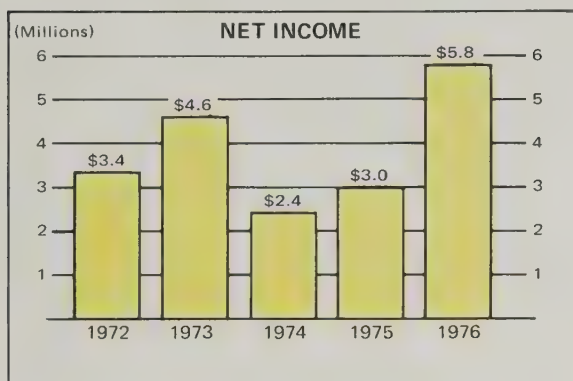
## SALES GROWTH

Net sales of Hayes-Dana amounted to \$128,944,000 in 1976, an increase of 43% over 1975. These sales were an all time high for the Company. Our sales growth has averaged 13% over the past ten years, and 15% per year in the last five years. Hayes-Dana sales have been growing at a rate faster than current dollar (inflated) Canadian Gross National Expenditure, which is an important measure of our success in protecting and increasing the value of our shareholders' investment against the eroding effect of high inflation in the economy.

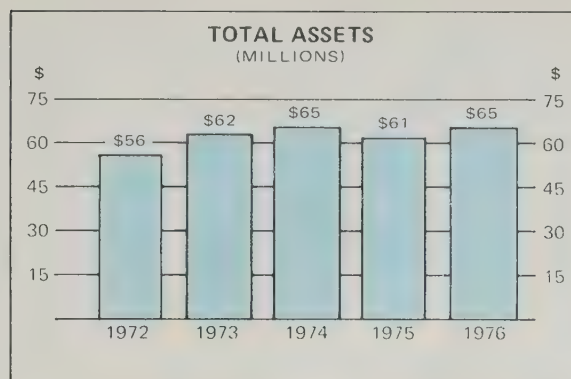
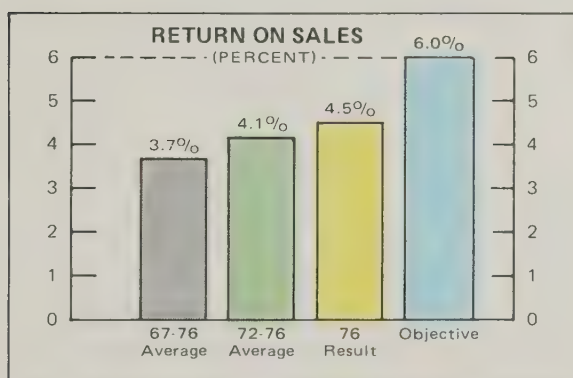


# PROFIT GROWTH

Hayes-Dana net income was \$5,791,000 or 96¢ per share after provision for an extraordinary item, compared with \$3,045,000 or 51¢ per share in 1975. This is the third consecutive year, and marks seven out of the last ten years, of earnings improvement.

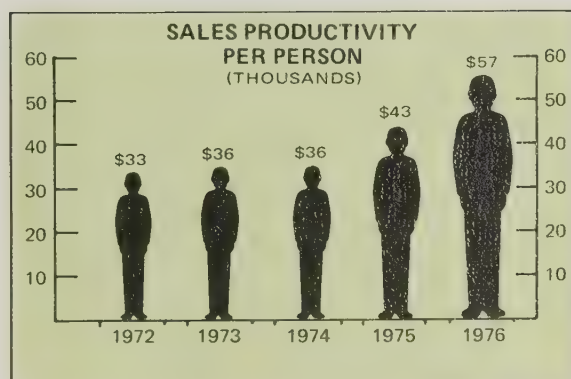


Return on sales — our net margin — has been as high as 5.2% and as low as 2.5% in the past ten years, but the overall trend has been moving steadily upward towards our objective of a 6% return on sales.



## ASSET MANAGEMENT

The \$65 million of total assets in Hayes-Dana Limited generated \$129 million of sales, or \$1.98 in sales for every \$1.00 of assets employed in 1976. Five years ago we generated less than \$1.16 in sales for every \$1.00 of assets.



## PRODUCTIVITY

Another measure of the way in which we try to use our capital more productively is represented by the increase in sales output per person — from approximately \$33,000 per person five years ago to \$57,000 per person at the end of 1976.





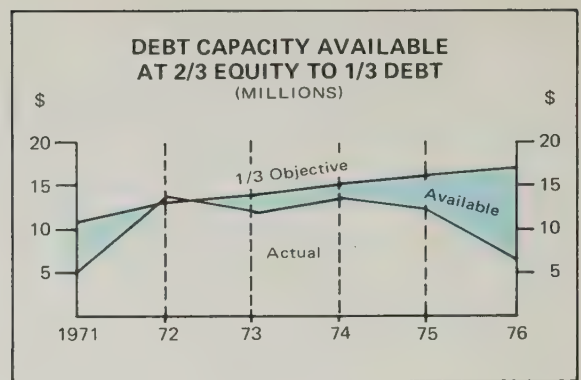
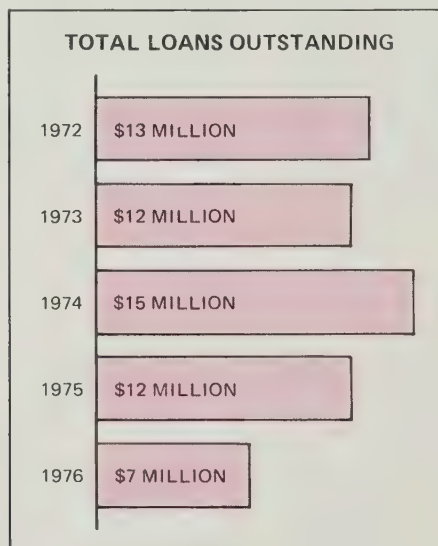
## FINANCIAL STRATEGY (Continued)

### LIQUIDITY

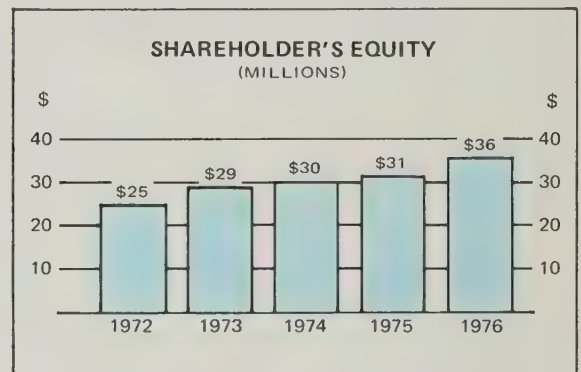
Making sure that we have adequate liquidity to allow us to reinvest in growing requirements of our markets is a prime concern of Hayes-Dana management. It is a difficult job because the high inflation rates of recent years tend to force available cash into working capital, at the expense of reinvestment in plants and equipment. Concentration on sound asset management of accounts receivable and inventory is one tool we use to stay liquid.

	1976	1972
Average collection period	36 days	50 days
Inventory turnover	5.6 times	3.5 times

As a result of improved profit margins, better productivity, and tight fisted asset management we have been able to control and significantly reduce our debt. At the end of 1976, our loans were reduced to \$6.8 million and represented a debt to equity ratio of 16%.



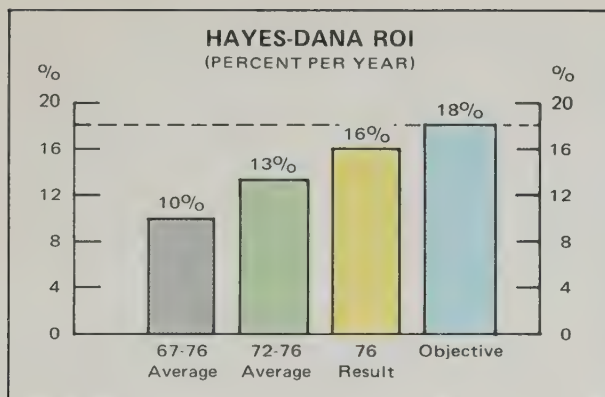
We believe that a ratio of 2/3 equity to 1/3 debt is the best long term structure for the Company. This chart indicates that we have adequate borrowing capacity available going into 1977 to continue our aggressive acquisition and new product expansion program. In 1976 we completed the cash purchase of Byers Truck & Trailer Equipment Ltd., spent almost \$4 million for new plant and equipment, added working capital to meet the 43% increase in sales and still were able to reduce our debt by approximately \$4.9 million.



### RETURN TO SHAREHOLDERS

Return on shareholders' equity was 16.1% in 1976, second only to the 16.2% record set in 1973. Our ROI has averaged 10% for the past ten years, and 13% in the last five years. It is interesting to note that the Summer 1976 issue of The Financial Post 300 found that only about one company in five managed a return on equity of 12% or better in their most recent fiscal year.





## MARKET PRICE OF STOCK

The Company's common stock is listed on the Toronto Stock Exchange under the symbol Hayes DA. The following table sets forth the range of sales prices of the stock on the Toronto Stock Exchange for each quarter during 1976 and 1975.

FISCAL QUARTER ENDED	PRICE RANGE			
	1976		1975	
	Hi	Lo	Hi	Lo
Nov. 30	6-3/8	4.95	5-3/8	4-1/2
Feb. 28	8	5-3/8	5-1/8	3.40
May 31	8	6	5-1/4	4-1/4
Aug 31	6-1/2	5-1/2	6-7/8	4.85

At August 31, 1976, the closing price of Hayes-Dana shares was 5-1/2. The price earnings multiple on that date was 5.7.

We continued our policy of paying cash dividends for the thirty-fourth consecutive year, now on a quarterly basis at the annual rate of approximately 26 cents per share. This rate includes the approximate maximum increase allowable under A.I.B. regulations.



## OFFICERS OF THE COMPANY

**G. B. MITCHELL**  
*Chairman of the Board*

**G. D. DORESCO**  
*President*

**L. H. DENSMORE**  
*Secretary*

**H. E. LANGFORD**  
*Vice-President*  
*Drive Train Division*

**S. J. MORCOCK**  
*Vice-President - Operations*

**R. E. MAINES**  
*Treasurer*

**G. G. HOUGH**  
*Controller*

**MISS M. MOSS**  
*Assistant Secretary*



## CONSOLIDATED BALANCE SHEET

ASSETS	YEAR ENDED AUGUST 31	
	1976	1975
CURRENT ASSETS:		
Cash	\$ 145,000	\$ 97,000
Accounts receivable	12,254,000	7,453,000
Inventories (Note 2)	23,146,000	19,493,000
Prepaid expenses	611,000	827,000
Due from Dana Corporation and affiliates	245,000	951,000
	<hr/> 36,401,000	<hr/> 28,821,000
FIXED ASSETS, AT COST:		
Land and improvements to land	1,047,000	906,000
Buildings	11,203,000	10,492,000
Machinery and equipment	46,856,000	43,861,000
	<hr/> 59,106,000	<hr/> 55,259,000
Less — Accumulated depreciation	31,352,000	24,038,000
	<hr/> 27,754,000	<hr/> 31,221,000
OTHER ASSETS:		
Investments at equity	548,000	613,000
Unamortized deferred expenses	—	464,000
Other investments	—	207,000
Goodwill (Note 3)	742,000	—
	<hr/> 1,290,000	<hr/> 1,284,000
	<hr/> <b>\$65,445,000</b>	<hr/> <b>\$61,326,000</b>



LIABILITIES AND SHAREHOLDERS' EQUITY	YEAR ENDED AUGUST 31	
	1976	1975
CURRENT LIABILITIES:		
Bank advances	\$ 415,000	\$ 7,700,000
Accounts payable and accrued liabilities	10,110,000	8,007,000
Income taxes payable	4,334,000	688,000
Current portion of long-term debt	1,500,000	2,500,000
Dividend payable	361,000	358,000
	<hr/> 16,720,000	19,253,000
LONG-TERM DEBT:		
7-3/4% secured debenture	—	1,500,000
Note payable (Note 4)	4,898,000	—
DEFERRED INCOME TAXES	7,951,000	9,302,000
SHAREHOLDERS' EQUITY (Notes 5 and 6):		
Common shares, without nominal or par value	9,534,000	9,274,000
Retained earnings	26,342,000	21,997,000
	<hr/> 35,876,000	31,271,000
	<hr/> <hr/> \$65,445,000	<hr/> <hr/> \$61,326,000



## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	YEAR ENDED AUGUST 31	
	1976	1975
Sales	<b>\$128,944,000</b>	\$ 90,187,000
Dividends, interest and other income (net)	<b>431,000</b>	234,000
	<b>129,375,000</b>	90,421,000
Costs and expenses (including depreciation of \$3,757,000 in 1976 and \$3,667,000 in 1975):		
Cost of sales	<b>109,170,000</b>	79,785,000
Selling, general and administrative expenses	<b>5,816,000</b>	4,144,000
Interest on long-term debt	<b>263,000</b>	380,000
Bank interest	<b>611,000</b>	839,000
	<b>115,860,000</b>	85,148,000
Income before income taxes and extraordinary item	<b>13,515,000</b>	5,273,000
Income taxes	<b>5,860,000</b>	2,228,000
Income before extraordinary item	<b>7,655,000</b>	3,045,000
Extraordinary item (Note 7)	<b>1,864,000</b>	—
Net income for the year	<b>5,791,000</b>	3,045,000
Dividends declared (Note 5)	<b>1,446,000</b>	1,436,000
Earnings retained in business	<b>4,345,000</b>	1,609,000
Retained earnings:		
Beginning of year	<b>21,997,000</b>	20,388,000
End of year	<b>\$ 26,342,000</b>	\$ 21,997,000
Income per share before extraordinary item	<b>\$1.27</b>	\$ .51
Net income per share	<b>.96</b>	.51
Cash dividends paid per Class A share	<b>.24</b>	.24
Cash dividends paid per Class B share	<b>.204</b>	.204



**HAYES-DANA LIMITED**

AND SUBSIDIARY COMPANIES

**CONSOLIDATED STATEMENT OF CHANGES IN  
FINANCIAL POSITION****YEAR ENDED AUGUST 31**  
**1976                      1975**

Financial resources were provided by:

Net income before extraordinary item	<b>\$ 7,655,000</b>	\$ 3,045,000
Charges not requiring current funds —		
Amortization of deferred expenses and goodwill	<b>546,000</b>	898,000
Depreciation	<b>3,757,000</b>	3,667,000
Deferred income taxes	<b>339,000</b>	1,118,000
	<hr/>	
Funds from operations	<b>12,297,000</b>	8,728,000
Capital stock issued	<b>260,000</b>	—
Decrease in other assets, before amortization of deferred expenses	<b>—</b>	43,000
Increase in long-term debt	<b>3,398,000</b>	—
	<hr/>	
	<b>15,955,000</b>	8,771,000

Financial resources were used for:

Additions to plant and equipment (net)	<b>3,844,000</b>	3,690,000
Dividends and special tax paid	<b>1,446,000</b>	1,436,000
Increase in other assets, before amortization of deferred expenses and goodwill	<b>552,000</b>	—
Reduction of long-term debt	<b>—</b>	2,500,000
	<hr/>	
	<b>5,842,000</b>	7,626,000
	<hr/>	
Increase in working capital	<b>10,113,000</b>	1,145,000
Working capital at beginning of year	<b>9,568,000</b>	8,423,000
	<hr/>	
Working capital at end of year	<b>\$19,681,000</b>	\$ 9,568,000



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — AUGUST 31, 1976

### 1. SUMMARY OF ACCOUNTING POLICIES:

The significant accounting practices and policies employed in the preparation of the consolidated financial statements of Hayes-Dana Limited and its subsidiaries are summarized below.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary companies, Hayes-Dana Parts Co. Ltd., Hayes-Dana Properties Limited, Hayes-Dana Special Services Limited, HDSP Parts Limited and Byers Truck & Trailer Equipment Limited.

Investments in corporate joint ventures are carried at cost plus equity in their undistributed net income.

Other long-term investments are carried at net realizable value.

Depreciation is computed over the estimated useful lives of property, plant and equipment using the straight-line method for financial reporting purposes. The carrying value of properties retired or otherwise disposed of, and accumulated depreciation thereon, are eliminated from the accounts and any resulting gain or loss is recognized in income. Expenditures for maintenance and repairs are charged to income and renewals and betterments are capitalized.

The Company claims the maximum depreciation allowed for tax purposes. Deferred income taxes are provided on differences between the depreciation claimed for accounting and tax purposes. The Company uses the "flow-through" method of accounting for investment tax credits as a reduction of the current provision for federal income taxes.

The Company's operations are affected to some extent by model changes. It is the Company's policy to defer expenditures incurred to bring manufacturing operations into full production as a result of major expansions and model changeovers, and to amortize such expenditures over the estimated production life of the new design.

Foreign currency balances and transactions are translated into Canadian dollars as follows: long-term assets and liabilities at exchange rates in effect at dates of acquisition; current assets and liabilities at rates in effect at August 31; revenue and expenses at average rates for the year. Unrealized gains on translation of foreign currency are deferred and carried forward on the consolidated balance sheet; unrealized losses are charged to income. The unrealized loss as at August 31, 1976 resulting from the translation of net current balances at year-end rates of exchange was charged to operations.

Earnings per share are computed on the basis of the weighted average number of shares outstanding during the year. Shares reserved for issuance under the stock option plan would not materially dilute earnings per share.

### 2. INVENTORIES:

Inventories are valued at the lower of cost and net realizable value with cost determined on a first-in first-out basis, and consisted of:

	1976	1975
Raw materials	\$ 5,727,000	\$ 6,597,000
Work-in-process and finished goods	<u>17,419,000</u>	<u>12,896,000</u>
	<u>\$23,146,000</u>	<u>\$19,493,000</u>

### 3. BUSINESS ACQUIRED:

Pursuant to a purchase agreement completed in the current year, all the shares of a company engaged in the automotive aftermarket were acquired in a transaction which was accounted for as a purchase.

Net tangible assets at book value	\$ 804,546
Premium ascribed to goodwill	<u>820,454</u>
	<u>\$1,625,000</u>

The goodwill arising from this purchase is being amortized on a straight-line basis over a ten year period commencing in 1976.

### 4. LONG-TERM DEBT:

During the year a 10-1/2% note payable maturing in 1981, and renewable for an additional five years was negotiated with Dana Corporation.

### 5. CAPITAL STOCK:

The authorized capital of the Company is 8,000,000 Class A and B shares. There are 6,037,656 shares issued consisting of 5,847,638 Class A and 190,018 Class B as at August 31, 1976. The shares are inter-convertible on a share-for-share basis and the rights of each class are identical. Both classes of shares rank equally as to dividends but Class A shares are entitled to taxable cash dividends; Class B shares are entitled to dividends out of tax-paid undistributed surplus on hand and 1971 capital surplus on hand. These dividends will be in an amount equivalent to the dividends paid on the Class A shares less any applicable taxes.

### 6. STOCK OPTIONS:

The Employees' Stock Option Plan provides for options to be granted to key employees to purchase up to 110,250 shares of the Company's capital stock at a price



equal to the market value of the shares at the date granted. During the year ended August 31, 1976 options on 52,126 shares were exercised for a total cash consideration of \$260,108 and no options were granted. At August 31, 1976 the following options to purchase were outstanding: 10,500 shares at \$5.00; 8,925 shares at \$9.05 and 1,050 shares at \$11.16, including options for 15,875 shares held by two officers, one of whom is a director.

#### **7. EXTRAORDINARY ITEM:**

A major customer has decided to integrate for the 1978 model year, certain automotive frames which are currently manufactured by the Company. The equipment required to produce these frames is special to such production and has no apparent alternate use. Therefore, the Company has decided to fully amortize the remaining cost of this equipment which had a net book value during the year of \$3,554,000.

#### **8. PURCHASE AGREEMENTS:**

The Company has agreed to terminate the joint ownership of Traction Specialty Limited with U.A.P. Inc.. As part of the agreement the Company has agreed to purchase certain property and assets of Traction Specialty Limited employed in the Toronto business. This agreement has been approved by the Foreign

Investment Review Agency. The Company has agreed to purchase all the outstanding shares of Western Wheel & Parts Ltd., a Canadian operation. The purchase will be completed when the necessary approval is obtained from the Foreign Investment Review Agency.

#### **9. REMUNERATION OF DIRECTORS AND OFFICERS:**

The Company and its subsidiaries paid \$29,000 to nine directors and \$398,000 to nine officers, two of whom are directors.

#### **10. PENSION PLANS:**

The unfunded past service liability of the Company's pension plans which is being amortized over not more than fourteen years is estimated by independent actuaries to be \$8,000,000 (of which \$6,200,000 represents employees vested benefits). Pension plan expenses for the year amounted to \$1,387,000 (1975-\$1,739,000).

#### **11. ANTI-INFLATION ACT:**

The Company and its subsidiaries are subject to the Anti-Inflation Act which provides, as from October 14, 1975, for the restraint of profit margins, prices, dividends and compensation. In the opinion of management the Company has complied with all the provisions of the Act.

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## **AUDITORS' REPORT**

### **To the Shareholders of Hayes-Dana Limited:**

We have examined the consolidated balance sheet of Hayes-Dana Limited and its subsidiaries as at August 31, 1976 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Companies as at August 31, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Ontario

September 22, 1976.

**PRICE WATERHOUSE & CO.**

Chartered Accountants

# CONDENSED FINANCIAL SUMMARY

For the Fiscal Years

1967

1968

1969\*\*

1970

1971

1972

1973

1974

1975

1976

## OPERATING DATA

NET SALES ..... \$128,944,000 \$90,187,000 \$90,051,000 \$97,735,000 \$64,596,000 \$51,305,000 \$54,945,000 \$65,095,000 \$47,882,000 \$36,800,000

Cost of Sales ..... 112,724,000 79,785,000 81,124,000 85,805,000 55,467,000 44,851,000 48,340,000 56,580,000 42,512,000 31,653,000

Interest Expense ..... 874,000 1,219,000 1,194,000 1,040,000 553,000 521,000 637,000 506,000 553,000 181,000

Income before Income Taxes ..... 9,961,000 5,273,000 4,312,000 7,939,000 5,722,000 3,375,000 3,275,000 4,886,000 2,531,000 2,669,000

Income Taxes ..... 4,170,000 2,228,000 1,904,000 3,290,000 2,370,000 1,654,000 1,925,000 2,580,000 1,181,000 1,317,000

NET INCOME ..... 5,791,000\* 3,045,000 2,408,000 4,649,000 3,352,000 1,721,000 1,350,000 2,306,000 1,350,000 1,352,000

Net Income for the Year Retained for Growth ..... 4,345,000 1,609,000 805,000 3,281,000 2,120,000 527,000 156,000 714,000 158,000 471,000

Net Income per Share of Common Stock ..... \$ .96\* \$ .51 \$ .40 \$ .78 \$ .56 \$ .29 \$ .23 \$ .39 \$ .23 \$ .23

Cash Dividends Declared per Share of Common Stock ..... \$ .24 \$ .24 \$ .24 \$ .23 \$ .20 \$ .20 \$ .20 \$ .21 \$ .20 \$ .13

## YEAR END FINANCIAL POSITION

Working Capital ..... 19,681,000 9,568,000 8,423,000 8,158,000 7,575,000 6,498,000 6,592,000 8,483,000 8,678,000 8,836,000

Property, Plant and Equipment at Cost ..... 59,106,000 55,259,000 52,580,000 48,943,000 42,738,000 34,227,000 32,738,000 29,633,000 27,129,000 25,959,000

Property, Plant and Equipment, Less Accumulated Depreciation and Amortization ..... 27,754,000 31,221,000 31,198,000 30,812,000 27,260,000 20,754,000 21,199,000 19,595,000 18,758,000 18,702,000

Total Assets ..... 65,445,000 61,326,000 65,148,000 61,792,000 55,856,000 41,207,000 42,818,000 40,833,000 36,867,000 37,261,000

Long-Term Debt ..... 4,898,000 1,500,000 4,000,000 6,000,000 4,000,000 — 1,000,000 2,000,000 3,000,000 4,000,000

Shareholders' Equity ..... 35,876,000 31,271,000 29,662,000 28,704,000 25,417,000 23,297,000 22,770,000 22,614,000 21,900,000 21,643,000

Ratio of Current Assets to Current Liabilities ..... 2.2:1 1.5:1 1.4:1 1.4:1 1.4:1 1.5:1 1.5:1 1.7:1 2.0:1 2.0:1

Shareholders' Equity per Share ..... \$ 5.94 \$ 5.22 \$ 4.96 \$ 4.80 \$ 4.25 \$ 3.89 \$ 3.81 \$ 3.78 \$ 3.66 \$ 3.64

\* After extraordinary charge

\*\* Thirteen months





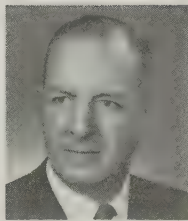
## BOARD OF DIRECTORS



H. J. Carmichael



J. E. Martin



D. G. Willmot



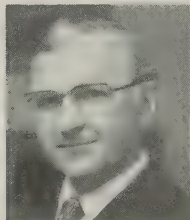
R. C. McPherson



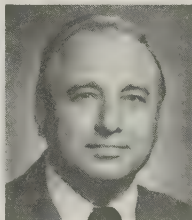
S. T. Paton



G. B. Mitchell



A. G. Coulter



B. R. Reimer



J. D. Stevenson, Q.C.



J. J. Wettlaufer



G. D. Doresco

The board consists of eleven members, six of whom are resident Canadian citizens.

**H. J. CARMICHAEL** — TORONTO, ONTARIO  
INDUSTRIALIST

**A. G. COULTER** — OSHAWA, ONTARIO  
PRESIDENT - SEEBURN METAL PRODUCTS LIMITED

**G. D. DORESCO** — ST. CATHARINES, ONTARIO  
PRESIDENT - HAYES-DANA LIMITED

**J. E. MARTIN** — TOLEDO, OHIO  
CHAIRMAN OF THE EXECUTIVE COMMITTEE - DANA CORPORATION

**R. C. McPHERSON** — TOLEDO, OHIO  
CHAIRMAN OF THE BOARD - DANA CORPORATION

**G. B. MITCHELL** — TOLEDO, OHIO  
PRESIDENT - DANA CORPORATION

**S. T. PATON** — TORONTO, ONTARIO  
CHAIRMAN OF THE BOARD - WOBACO HOLDING COMPANY S.A.

**B. R. REIMER** — TOLEDO, OHIO  
GROUP VICE-PRESIDENT - DANA CORPORATION

**J. D. STEVENSON, Q.C.** — TORONTO, ONTARIO  
PARTNER - SMITH, LYONS, TORRANCE, STEVENSON & MAYER

**D. G. WILLMOT** — TORONTO, ONTARIO  
CHAIRMAN OF THE BOARD - THE MOLSON COMPANIES LIMITED

**J. J. WETTLAUFER** — LONDON, ONTARIO  
DEAN AND PROFESSOR - BUSINESS ADMINISTRATION  
UNIVERSITY OF WESTERN ONTARIO

Regular meetings of the Board are held quarterly in December, March, June and September. The Annual Shareholders' Meeting is normally held on the first Wednesday in November.

REGISTRAR AND TRANSFER AGENT: CANADA PERMANENT TRUST COMPANY, TORONTO, ONTARIO  
BRANCHES: VANCOUVER, CALGARY, REGINA, WINNIPEG, MONTREAL, HALIFAX

CO-TRANSFER AGENT: THE OHIO CITIZENS TRUST COMPANY, TOLEDO, OHIO

LISTED — TORONTO STOCK EXCHANGE — HAY. A.



*a member of the DANA group...*  
*a multi-national organization*  
**TURNING POWER INTO PROGRESS**  
**AROUND THE WORLD**

**CORPORATE HEAD OFFICE** — Thorold, Ontario

**DRIVE TRAIN DIVISION** — Thorold, Ontario

BRANCH PLANTS — St. Thomas, Ontario and Burnaby, British Columbia

**AGRICULTURAL DIVISION** — Thorold, Ontario

**FORGE DIVISION** — St. Catharines, Ontario

**FRAME DIVISION** — Thorold, Ontario

**AFTERMARKET OPERATIONS**

**HEAD OFFICE AND CENTRAL WAREHOUSE** — Beamsville, Ontario

**MANUFACTURING PLANTS** — St. Thomas and Stoney Creek, Ontario

**BRANCH WAREHOUSES** — Burnaby, British Columbia - Edmonton and

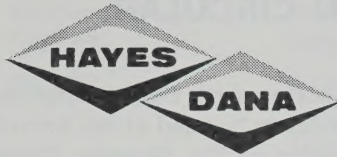
Calgary, Alberta - Winnipeg, Manitoba - Toronto, Ontario - Montreal,  
Quebec - Moncton, New Brunswick.

**BYERS TRUCK & TRAILER EQUIPMENT LIMITED** — Windsor, Chatham,

London, Toronto and Sudbury, Ontario

**HAYES-DANA SPECIAL SERVICES LIMITED** — Oakville and Oshawa, Ontario





**HAYES-DANA LIMITED**  
THOROLD, ONTARIO

### **NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

Notice is hereby given that the Annual Meeting of Shareholders of Hayes-Dana Limited will be held in the Civic Ballroom of The Sheraton Centre, Toronto, Ontario, on Wednesday November 3, 1976 at 11 :00 o'clock in the forenoon (Eastern Standard Time) for the following purposes:

1. To receive the consolidated financial statements of the Company and its subsidiaries for the year ended August 31, 1976 together with the reports of the Directors and Auditors thereon;
2. To elect Directors;
3. To appoint Auditors and to authorize the Directors to fix their remuneration; and
4. To transact such further business as may properly come before the meeting or any adjournment thereof.

DATED at Thorold this 8th day of October, 1976

By Order of the Board,

L. H. DENSMORE

Secretary.

We ask that you promptly sign, date and return the enclosed proxy in the enclosed return envelope if it is not your intention to be present at the Meeting. If you are personally present at the Meeting and desire to do so you may withdraw your proxy and vote in person.

# INFORMATION CIRCULAR

## SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation by the management of HAYES-DANA LIMITED (the "Company") of proxies to be used at the Annual Meeting of the Shareholders of the Company to be held in the Civic Ballroom of The Sheraton Centre, Toronto, Ontario, on Wednesday, November 3, 1976 at 11:00 o'clock in the forenoon (E.S.T.). The cost of such solicitation will be borne by the Company.

## APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors of the Company. A shareholder desiring to appoint some other person to represent him at the meeting may do so either by inserting such person's name in the blank space provided in the form of proxy or by completing another proper form of proxy and, in either case delivering the completed proxy to the Secretary of the Company.

A shareholder who has given a proxy may revoke the proxy by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of the Company at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the chairman of such meeting on the day of the meeting or adjournment thereof.

## EXERCISE OF DISCRETION BY PROXIES

The shares represented by proxies solicited by management will be voted or withheld from voting with respect to matters referred to therein in accordance with the specifications made in the proxy.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations, if any, to matters identified in the notice of meeting and with respect to other matters which may come before the meeting. At the time of printing this circular the management of the Company knows of no matters to come before the meeting other than the matters referred to in the notice of meeting.

## VOTING SHARES

The Company has outstanding 5,847,638 Class A Common Shares without par value and 190,018 Class B Common Shares without par value. There is no other class of shares outstanding. Each shareholder is entitled to one vote for each Common Share registered in his name at the time of the meeting.

Dana Corporation owns beneficially 3,961,937 Class A Common Shares without par value representing approximately 66% of the outstanding Common Shares of the Company.

## ELECTION OF DIRECTORS

The board consists of eleven directors to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth below, all of whom are now members of the board of directors and have been since the dates indicated. The management does not contemplate that any of the nominees will be unable to serve as director, but if that should occur for any reason prior to the meeting, **the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion.** Each director elected will hold office until the next Annual Meeting or until his successor is elected under the Company's by-laws.

The following table and notes thereto state the names of all the persons proposed to be nominated for election as directors, all other positions and offices with the Company now held by them, their principal occupations or employments, the year in which each of the present directors first became a director of the Company, and the approximate number of shares of each class of the Company beneficially owned directly or over which control or direction is exercised by such nominees.

<u>Name</u>	<u>Positions held in the Company</u>	<u>Principal occupation or employment</u>	<u>Became a Director</u>	<u>Shares Owned Beneficially</u>
H. J. Carmichael	Director and Member of the Executive Committee	Industrialist; Director, Continental Can Co. of Canada Ltd. and The Ontario Jockey Club.	1952	48,000 Class B



Name	Positions held in the Company	Principal occupation or employment	Became a Director	Shares Owned Beneficially
A. G. Coulter	Director	President, Seeburn Metal Products Limited.	1965	2,117 Class A
G. D. Doresco	President	President, Hayes-Dana Limited.	1973	10,337 Class B
J. E. Martin	Director and Chairman of the Executive Committee	Chairman of the Executive Committee, Dana Corporation.	1956	21,707 Class A
R. C. McPherson	Director	Chairman of the Board, Dana Corporation.	1960-69 1972	10,667 Class A
G. B. Mitchell	Chairman of the Board	President, Dana Corporation.	1963	13,776 Class A
S. T. Paton	Director	Chairman of the Board, Wobaco Holding Company, S.A.	1969	1,103 Class A
B. R. Reimer	Director	Group Vice-President, Dana Corporation.	1969	11,225 Class A
J. D. Stevenson, Q.C.	Director	Partner of Smith, Lyons, Torrance, Stevenson and Mayer.	1963	6,228 Class B
J. J. Wettlaufer	Director	Dean and Professor, School of Business Administration, University of Western Ontario.	1975	320 Class A
D. G. Willmot	Director and Member of the Executive Committee	Chairman of the Board, The Molson Companies Limited.	1961	16,900 Class B

## REMUNERATION OF MANAGEMENT AND OTHERS

The aggregate remuneration paid in the fiscal year ended August 31, 1976 by the Company and its affiliates to the directors and officers of the Company is indicated below. The amounts shown under Remuneration of Directors include all remuneration from the Company and affiliates except that in respect of service as officers of the Company. Remuneration of Officers reflects remuneration to officers of the Company by it and its affiliates.

### Nature of Remuneration Earned

	Directors' Fees	Salaries	Bonuses	Non-Accountable Expenses	Other	Total
<b>Remuneration of Directors</b>						
(A) Number of directors – 11 (of whom 2 are also officers)						
(B) Corporation incurring the expense: Hayes-Dana Limited	\$24,000	\$ 4,800		\$5,900		\$ 34,700
<b>Remuneration of Officers</b>						
(A) Number of officers – 10						
(B) Corporation incurring the expense: Hayes-Dana Limited		\$262,671	\$123,360			\$386,031
<b>Totals</b>	\$24,000	\$267,471	\$123,360	\$5,900		\$420,731

The estimated aggregate cost to the Company and its subsidiaries, in the Company's fiscal year ended August 31, 1976, of all pension benefits proposed to be paid under the Company's present plan to the directors and officers of the Company and in the event of retirement at normal retirement age was \$33,000.

During the fiscal year ended August 31, 1976, the directors and officers of the Company as a group exercised options to purchase Class A Common Shares of the Company as follows:

Number of Class A Common Shares	Purchase Price	Price Range of Common Shares in 30 day period prior to date of Purchase (Toronto Stock Exchange)
2,000	\$4.99	\$5.25 to \$6.00
3,087	\$4.99	\$5.50 to \$6.00
13,435	\$4.99	\$6.00 to \$6.375
4,410	\$4.99	\$6.00 to \$7.00
2,646	\$4.99	\$6.375 to \$8.125
10,672	\$4.99	\$6.875 to \$8.125

From time to time the Company makes interest-free loans to officers and employees relocating at the Company's request to enable such persons to purchase their own residences. During the fiscal year ended there were two loans outstanding to two officers of the Company, one of whom is also a director. The greatest amounts outstanding during the fiscal year were \$30,000 and \$20,000 respectively and the amounts outstanding as at August 31, 1976 were \$28,000 and \$20,000 respectively.

#### **APPOINTMENT OF AUDITORS**

The persons named in the accompanying proxy intend to vote for the reappointment of Price Waterhouse & Co., Chartered Accountants, as auditors of the Company and for the authorization of the directors to fix their remuneration.

The contents and the sending of this circular have been approved by the directors of the Company.

Thorold, Ontario  
October 8, 1976